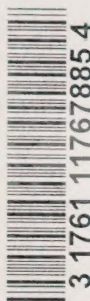


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GEOGRAPHY

Bulgaria is located in Southeastern Europe, bordering the Black Sea, between Romania and Turkey. The total area of the country is 110,910 km², while the land area is 110,550 km². Bulgaria's land boundaries total 1,808 km, shared with Greece 494 km, the Former Yugoslav Republic of Macedonia 148 km, Romania 608 km, Serbia and Montenegro 318 km (all with Serbia), and Turkey 240 km.

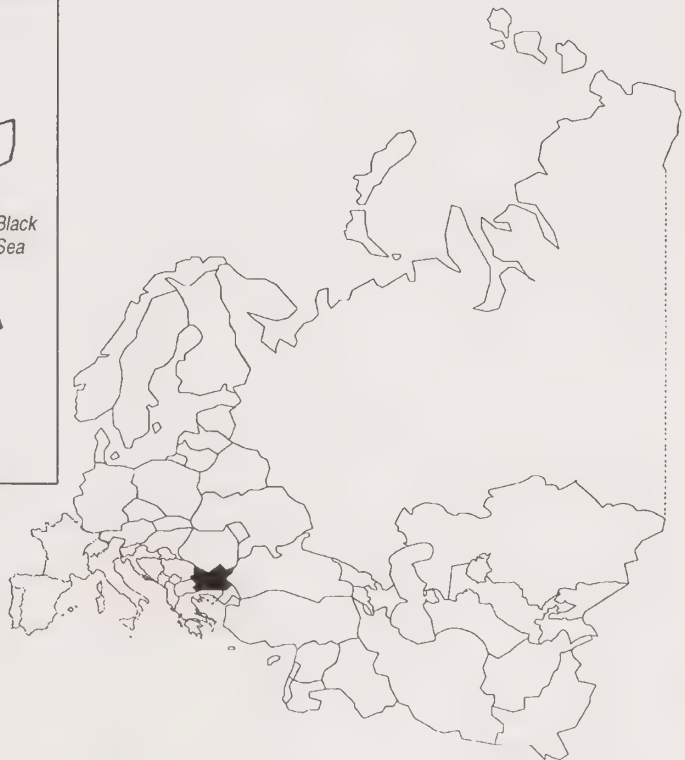
Bulgaria is optimally located at the crossroads of traditional trade routes allowing access to 150 million customers. Administratively, Bulgaria is divided into 9 provinces (oblasti), and more than 250 municipalities.

Bulgaria is faced with a number of environmental issues such as air pollution from industrial

emissions, soil contamination from heavy metals and industrial waste, water pollution, and deforestation.

Bulgaria's climate is temperate; with cold, damp winters; and hot, dry summers. The terrain is mostly mountainous with lowlands in the north and southeast. Natural resources include bauxite, copper, lead, zinc, coal, timber, and arable land.

The industrial sector, developed in the 1960-70s, has a diverse structure, with a large share of the industrial output coming from the chemical, pharmaceutical, and manufacturing industries. In addition, agriculture which has a long tradition, has maintained its importance. The country is also one of the world's leading tobacco and wine exporters.



DEMOGRAPHICS

Bulgaria's population reached 8.7 million in 1995. The capital, Sofia, has a population of 1.1 million. Nineteen percent of the population is under the age of 14 years; 66 percent is between 15-64 years; and 15 percent is 65 years and over.

The population growth rate was minus 0.25 percent in 1995. The birth rate was 11.75 births per 1,000 population. The death rate was 11.31 deaths per 1,000 population. The net migration rate was minus 2.91 migrants per 1,000 population. The life expectancy rate in Bulgaria is 73.68 years.

Bulgaria's population has experienced significant decline due to emigration and decreasing birth rates. Sofia, Plovdiv, Varna, Ruse and Burgas are the largest urban centres with over 200,000 inhabitants each; close to 69 percent of the population live in urban areas. Table 1 shows Bulgaria's demographic indicators.

The nationality is Bulgarian. Ethnic divisions in Bulgaria include Bulgarian 85.3 percent, Turk 8.5 percent, Gypsy 2.6 percent, Macedonian 2.5 percent, Armenian 0.3 percent, Russian 0.2 percent, and other 0.6 percent.

Religions include Bulgarian Orthodox 85 percent, Muslim 13 percent, Jewish 0.8 percent, Roman Catholic 0.5 percent, Uniate Catholic 0.2 percent, Protestant, Gregorian-Armenian, and other 0.5 percent.

Bulgarian is the official language, while English, Russian and German are also spoken.

The labour force totals 4.3 million people with 33 percent employed by industry, 20 percent in agriculture, while other sectors account for 47 percent.

Table 1:
Demographic Indicators

Population (million) July 1995	8,775
Population Density (1994)	76.2 per km ²
Population by Age	
0-14	19%
15-64	66%
65+	15%
Literacy Rate	97%
Population Growth (% 1992-95)	-0.25%
Urban Population (% of total, 1994)	68.5%
Human Development Index (ranking of 174 countries, 1992)	65
Cities with over 1 Million Inhabitants (1995)	Sofia, 1.1 million
Growth Rate of Largest City (% 1990-95)	N/A
Sources: EBRD, 1996; EIU, 1995; UNDP, 1995; WB, 1996	

ECONOMIC OVERVIEW

Since December 1989, Bulgaria has initiated the economic and political transition to a free market economy. A combination of key policies mark Bulgaria's comprehensive reform process including: the commitment to privatization, economic restructuring, the reorientation of trade towards Western partners, and the encouragement of foreign investment. Though a number of economic reforms were implemented, the financial, banking, and tax systems still need to undergo considerable re-adjustment to enable a more efficient operation of the market. The stabilization of the economy, and the promotion of sustainable economic growth are still major tasks ahead. Economic indicators are presented in Table 2.

Many aspects of a market economy have been put in place in recent years and have begun to function, but much of the economy, especially the industrial sector, has yet to re-establish market links lost with the collapse of the other centrally planned Soviet Bloc economies.

Bulgaria's difficult and painful transition from a Soviet-model command economy to a Western-style free market continues. The domestic economy is characterized by continuing stagflation.

Officially, gross domestic product (GDP) has decreased by more than 45 percent since 1989. Industrial production has fallen precipitously due to the government's tight monetary policy, the collapse of Bulgaria's export market in the former COMECON countries, United Nations sanctions against Iraq and Serbia, and by the cut-off of foreign trade credits, which deprives many enterprises of raw materials and semi-finished goods imported from abroad. Falling output is

concentrated in the state-owned manufacturing sector. The private sector, consisting mostly of small retail and service establishments, continues to grow and even prosper. Although reliable statistics do not exist, by some estimates, the private sector contributes as much as 40 percent of GDP, 50 percent of retail sales, 30 percent of trade, and 20 percent of personal incomes.

With the support of IMF, the World Bank, and G-24 nations, Bulgaria embarked on a rigorous macro-economic stabilization program in 1991. Until the first half of 1994, the inflation rate was high, but gradually fell (from 420 percent in 1991 when prices and interest rates were decontrolled to 63.8 percent in 1993).

Since February 1991, interest rates and most prices moved to market-clearing levels, most state subsidies have been eliminated, and the Bulgarian currency (Lev) has been allowed to float under a system of internal convertibility. Restitution of urban property to the original owners or their heirs has given a significant boost to small-scale private retail and service business. Bulgaria's Parliament has passed market-oriented laws governing foreign investment, intellectual-property protection, labour relations, land reform, corporations, bankruptcy, and banking reform.

A skilled, well-educated work-force is perhaps Bulgaria's chief economic resource, although productivity in some sectors is low and management skills are weak. Western businesses in Bulgaria agree that, properly managed, Bulgarian employees generally are hard-working, honest, and eager to learn. With the restructuring of the economy, shortages of skilled labour should not pose a problem.

Table 2:
Key Economic Indicators

	1994	1995	1996 (estimates)
GDP (% growth)	0.0	3.0	3.0
GDP per Capita (US\$ at Purchasing Power Parity [PPP])	4,060	4,762	N/A
Gross Nominal Monthly Wages (December, in US\$)	96.1	123.3	N/A
Private Sector Share of GDP (%)	38.9	45.0	45.0
Unemployment Rate (%)	12.8	11.1	12.0
Annual Inflation Rates (% change)	89.0	62.0	77.0
Trade Balance (\$ million)	-0.314	-0.009	N/A
Foreign Direct Investment (US\$ million)	105	150	1,428 (1996-2000)

Sources: EIU, 1996, 1995; ECE, 1996; WB, 1996

POLITICAL OVERVIEW

In historical perspective, Bulgaria's changeover to a democratic system and market economy surpasses even the transformations of many communist countries in Central Europe, given Bulgaria's former status and concentrated trade links with the COMECON countries of the Soviet Bloc. While other communist countries of the region adopted reform and displayed bursts of democracy, Bulgaria remained the most loyal and most bloc-dependent state in Eastern Europe.

In 1989, after 35 years of rule, Todor Zhivkov was removed from power and a reform-minded but communist-led leadership took over in a bloodless transition. Following two socialist governments in 1990, the first non-communist election was won by the Union of Democratic Forces (UDF) in October 1991. The UDF is an alliance of anti-communist parties and groups with strength among city dwellers and younger voters. Voters in the countryside and the older generation are still generally supportive of the former Communist Party, the Bulgarian Socialist Party (BSP). The UDF fell from power in late 1992, replaced by a compromise candidate with no party affiliation.

Bulgaria's economic reform program has been slow. On the positive side, restitution of shops and houses that were confiscated by the communists in the 1940s has put capital into the hands of many ordinary Bulgarians, helping to fuel rapidly growing consumer goods and service sectors. However, privatization of state-owned industry has moved slowly, as has the breakup of state-organized collective farms.

Under a new constitution adopted in July 1991, Bulgaria is a parliamentary democracy. The Bulgarian Socialist Party holds a majority (43.5 percent) in Parliament, followed by the Union of Democratic Forces (24.2 percent). The President, elected in 1996, has stated his intention to push Bulgaria in the direction of EU membership. However, with the banking system in crisis, currency fluctuating, huge national debt, and political instability, Bulgaria fails to meet the EU requirements.

Bulgaria's reformed communist government has failed to gain political support for its economic platform, confronted instead by a new consolidated opposition led by the Union of Democratic Forces. Following several strikes, Nikolai Dobrev (the Bulgarian Socialist Party) was nominated to form a new government in December 1996. Immediate government priorities are related to strict fiscal policy, economic recovery, and the promotion of investment.

Political tensions remain over the pace and impact of reform, the unemployed, and the level of corruption. Many of the difficult decisions facing Parliament require a strong coalition or consensus, something the current government is sorely lacking.

Moreover, politics in Bulgaria have moved to the extremes of left and right, creating a vacuum of the centre. As a result, a political discourse of compromise and pragmatism is difficult to achieve.

Economies in transition share the promise of new and lucrative markets while generating all the frustrations and dilemmas associated with major economic change. Bulgaria is no exception, and perhaps presents more frustrations than some of the other transitional economies in Central Europe.

Bulgaria's traditional trading partners have been the former Soviet Union and bloc countries, nearly 80 percent. The collapse of this market led to both a shrinkage of trade overall and a relative increase in trade levels with the OECD countries and with Bulgaria's Balkan neighbours. While Russia remained Bulgaria's largest single trading partner, Germany is second and Italy third.

Additionally, strong trading links had been established with the former Yugoslavia, North Africa and the Middle Eastern countries. Since 1990, Bulgaria has accomplished a major shift in trading patterns, with now almost 40 percent of trade with Western partners. Moreover, since the beginning of 1993, Bulgaria has concluded an Association Agreement with the European Union permitting preferential tariff rates between Bulgaria and the EU. European firms have been very active and successful with major awards in the telecommunications and transport fields.

With the collapse of COMECON trade, has come a restructuring of imports and exports as well. The old pattern of trading manufactures for Soviet raw materials (mostly energy) is being replaced by exports of agricultural products and light manufactures in exchange for consumer goods.

Yet foreign trade and investment in Bulgaria continues to expand, premised on a strategy of Bulgaria's long-term growth potential. Despite being one of the smallest markets in the region, Bulgaria's market size has not been an issue for many foreign firms, given the newness of the markets and the less entrenched competition from European and domestic sources.

Bulgaria lags behind the progress of Hungary, Poland, and the Czech Republic in market expansion. Historical distinctions can account for some of the differences, but much is due to home-grown Bulgarian political and economic

deficiencies. Bulgaria remains officially on a market reform course, but implementation of many market policies are fraught with indecision and bureaucratic blockages. The paradox is that Bulgaria has a laudable legal framework; the government's priority is that of privatization; and, Bulgaria welcomes and solicits investment and trade. However, the record of privatization is minimal, active support for foreign investment is missing, and official support for the stimulation of trade and investment through direct or indirect means is lacking.

Despite the neglect, investment in Bulgaria has nonetheless drawn attention from many foreign firms, especially U.S. multi-national corporations, who have utilized Bulgaria's traditional skill base, or unique production facilities. In these instances, no special formulas were employed, rather on-site scrutiny by the foreign partner lead to the discovery of some key investment opportunities.

Many of the trade and investment challenges in Bulgaria are bureaucratic in nature and are surmountable, but most require time, energy, and expense to overcome and frequently tax the limits of proper business behaviour. Successful business in Bulgaria is attainable and quite lucrative, judged by the growing and expanding presence of Western firms, but does demand a mixture of North American ingenuity, Asian patience, and a willingness to follow the meandering Balkan path of achieving objectives.

There are no restrictions on the transfer of investment-related funds nor has there been any difficulties in obtaining foreign exchange as remittances. Bulgarian corporations must, however, provide documentation when transferring funds overseas such as invoices, certificates and transport documents to the transferring bank.

Trade liberalization has been a major part of the reform process in Bulgaria. However, the loss of Soviet markets, coupled with an imbalanced restructuring, have resulted in a negative trade balance. Since 1995, this trade deficit has shown signs of decreasing. With the European Union as Bulgaria's largest trading partner, trade volumes

with Germany, Austria, Russia, Ukraine and Turkey are significant.

Bulgaria is pursuing foreign trade policies consistent with market reforms and trade liberalization. The Parliament has ratified an agreement between Bulgaria and the European Free Trade Association (EFTA) countries, and

bilateral protocols were signed with several EFTA members in 1993. In addition, the Central European Free Trade Agreement (Poland, Hungary, the Czech Republic, Slovak Republic and Slovenia), with about 70 million potential consumers, is negotiating to include Romania and Bulgaria.

HOUSING CONDITIONS

Overview

Since the beginning of the transition process, Bulgaria's housing sector has undergone a dramatic transformation marked by rapid privatization, and a reduced government role in the production and allocation of housing. Although the quality varies tremendously, Bulgaria's housing stock, in a strictly numerical sense, appears to be adequate for the near future. The number of dwellings (3.4 million) exceeds the number of households (2.9 million) by about 441,000 units. However, doubling up among households, especially in the larger cities, is widespread.

Bulgaria has a ratio of 392 housing units per 1000 inhabitants. Recent policy reforms have changed the existing tenure structure. The proportion of owner-occupied units in 1994, was close to 90 percent, while in the capital city of Sofia it was 84 percent. The ongoing privatization of public housing, left at the discretion of local authorities since 1993, will reduce the number of public rental units even further. The share of the private rental sector increased significantly after the reforms, reaching 3 percent. Housing

consumption is low compared to European standards, with an average floor space per person of 16.7m².

According to selected density indicators, the number of households exceeds the number of dwellings. Over-crowding, reflected in the ratio of persons per room, is as high as 1.3 in the public rental sector of Sofia. Density indicators also highlight another dimension of housing problems; the size of dwellings and number of rooms are inadequate compared to the size of the household, particularly in the public sector. A disproportionately high number of households (53 percent) in urban areas live in one and two-room flats. Table 3 illustrates housing conditions by type of tenure in 1994.

In Bulgaria, the poor quality of the existing housing stock has attracted significant public attention. Water supply and sewage systems are generally better developed in Sofia. The lower levels of infrastructure provision at the national level reflect the lower quality of rural owner-occupied housing, because urban areas, traditionally, have attracted a larger share of state investment in infrastructure and services. Overall, substandard housing amounts to 64,054 units.

Table 3:
Housing Conditions by Tenure Type, 1994

Tenure Type	Percentage of the Housing Stock	Household/Dwelling	m ² /Person	Persons/Room	Number of Units (000s)	Units in Single-family Buildings (%)	Units in Multi-family Buildings (%)
Public rental*	6.8	1.08	15.8	1.1	232.7	4.0	96.0
Sofia	12.0	1.12	14.5	1.3	57.1	2.0	98.0
Owner-Occupied*	89.7	1.04	17.0	1.0	3,164.2	55.4	44.6
Sofia	84.0	1.08	15.4	1.2	417.8	10.8	89.2
Private rental*	3.2	N/A	N/A	N/A	N/A	N/A	N/A
Sofia	3.8	N/A	N/A	N/A	N/A	N/A	N/A
Other*	0.3	1.08	15.8	1.1	9.0	0	100.0
Sofia	0.2	N/A	14.5	1.3	1.0	0	100.0
Total*	100.0	1.06	16.7	1.0	3,405.9	-	-
Total Sofia	100.0	1.01	15.2	1.2	475.9	-	-

* The data reflects housing characteristics at the national level.
Source: MRI, 1996

District heating is widely spread in Sofia, where the share of dwellings serviced by the system is over 74 percent.

The distribution of the housing stock by age and type is very diverse, although more than 54 percent of the housing stock was built after 1960. A large proportion of the housing in larger urban centres of Plovdiv, Sofia, Varna and Burgas is relatively uniform, consisting of mass-produced

highrise apartment buildings. Overall, there is a limited choice of housing types, styles and quality levels, thus helping to explain the high proportion of apartment buildings in Sofia, at over 97 percent. This situation also creates a number of problems related to the maintenance and management of the owner-occupied housing, which in terms of single-family housing, constitutes approximately 55 percent of the housing stock. The following table illustrates the housing quality.

Table 4:
Housing Quality

	Piped Water (% of flats)	Piped Sewer (% of flats)	Bath or Shower (% of flats)	District Heating*	Housing Built Since 1960 (%)
Bulgaria	91.4	86.4	75.5	20.0	53.9
Sofia	99.3	98.6	92.7	74.3	N/A

* Defined as percentage of dwellings provided with any heating installation serving one building or one flat.

Source: MRI, 1996

Overview

Since 1990, the socialist housing policy has been fundamentally restructured, basically as a result of changing political, economic and social conditions. The government adopted the “Guiding Principles of the National Housing Reform”, with goals that include: stimulating private housing provision; improving the existing housing stock; reforming housing financing; and completing unfinished units.

Subsequent housing reforms have focussed on property rights, restitution, privatization, and the restructuring of the housing sector. However, subsidy cuts have contributed to the sharp decline in housing input, decreased capital investment in the sector, and substantially reduced the flow of municipal housing services.

Relevant Regulatory Systems

Housing privatization is one of the few success stories in post-communist economic restructuring. The Bulgarian government rapidly transferred the vast majority of the public housing stock to private hands. Even under communist rule, Bulgaria had a sizeable number of home-owners; in 1985 about 97 percent of the rural stock, and 76 percent of the urban stock was in private ownership. In 1992, these shares were 98 percent and 92 percent, respectively, while in 1994, the public stock decreased to only 232,700 dwellings following a massive privatization to sitting tenants. The “give-away” privatization of public housing has proceeded rapidly. Over 328,476 units were privatized between 1990-94, or close to 9.7 percent of the total housing stock (Tsenkova, 1996).

A Decree for the privatization of state-owned housing was adopted in 1990. Housing was sold to sitting tenants at nationally fixed prices, which were less than 15 percent of the market price. The revenue was channelled into a special fund, for the compensation of long-term housing deposits eroded by high inflation.

Housing as a National Priority

The restitution of housing and urban land that began in February 1992, has been delayed by cumbersome processing procedures.

Approximately 11,815 units (5,507 in Sofia) were returned to former owners, while a number of other restitution claims are awaiting resolution. This nationalized stock contains some of the best and the worst housing in Bulgaria. Most properties are in attractive inner-city locations; however they have been subdivided to house a large number of families. Consequently, the housing stock needs considerable rehabilitation. Tenants retain their rights for a period of six years and pay nationally regulated rents to the private owners.

There is no budget allocation for the provision of new social housing or housing allowances. Subsidies, which amounted to 1.19 percent of the government’s budget in 1995, cover municipal overdue loans and cost differences in public rental housing. In order to shift maintenance costs and responsibilities, the Bulgarian government continues to privatize state and municipal government housing. Off-budget subsidies exist in the sale of state-owned housing at sub-market prices, and in compensation for sub-market interest rates on mortgages issued before 1989. However, there is no data available to assess the amount of off-budget subsidies involved.

A Housing Construction Fund has been established for the financing of new housing construction or the purchase of existing housing. Compensation is allocated to individual households with long-term housing deposits at the State Savings Bank, according to a point system, which contains a number of restrictions. The revenue for the fund, comes from the privatization of state and municipal government housing, as well as budget allocations. Reportedly, the subsidy is sufficient to buy less than 10 m² of housing space in larger urban centres.

More than 50 new regulations, laws and guidelines exist in Bulgaria, providing the legal framework for the housing sector. The Communist legislation is gradually being replaced, concerning issues

such as property rights, the privatization of dwellings and land, property tax, physical planning, and construction.

The Constitution of Bulgaria, adopted in 1991, defines and guarantees property rights. The Law on Local Self-Government and Local Administration emphasizes the responsibilities of municipalities, the decentralization of public services, the right to raise local taxes, to approve urban planning documents, to lease and sell municipally owned assets, and also, to transfer management rights through competitive bidding. According to the Local Taxes and Charges Law adopted in 1990, taxes on building are up to one percent of the assessment value, based on annually adjusted state tariffs. The registration of real estate property is carried out under the approval of the Council of Ministers Land Registration System.

The Territorial and Urban Development Law stipulates the provision and maintenance of technical infrastructure, building permits, and zoning. The Regulations defined in the Law, set categories of urban planning documents and outlines the stages in the approval process. In addition, a major effort has been made to develop unified European Union (EU) standards, particularly in areas such as construction and fire safety, energy efficiency, system and quality guarantees.

A new Regional and Urban Planning Law, and a Housing Law, were drafted at the end of 1994, and submitted for discussion.

Key Housing Market Institutions

The Ministry of Urban and Regional Development is responsible for coordinating building activities, planning major construction projects, and defining housing and construction policies. The Ministry works closely with the Ministry of Finance, and the Ministry of Justice particularly in developing the legal and financial framework for housing and urban reforms. Major interests are represented by: the Construction Chamber; the Union of Architects; the Private Building Firms Union; the

Developers Association; and the Association of Real Estate Brokers.

Other important institutions in the housing sector are the State Savings Bank; private construction companies; and developers.

State of the Local Housing Market

A massive decline in housing output was the initial effect of the retreat by the state from the provision of housing. Though private housing investment increased considerably, it was not sufficient to offset the massive decline in state subsidies. Housing investment was only 0.8 percent of GDP in 1994, a considerable drop compared to 1.5 percent in 1990.

The production of new housing decreased dramatically from 7 units per 1,000 population in the 1980s to a record low of 1 unit per 1,000 population in 1994. During the mid-1990s housing completions had fallen to an extremely low level of 9,000 units. By 1994, housing output was close to 15 percent of the output reached in 1980, and the situation in Sofia suggests a deeper crisis in new housing production. Table 5 presents available data on house prices in the resale market of large urban centres.

However, official statistics do not capture the dynamics of new house building. Recent developments indicate that private housing takes 18 to 24 months to complete. Private sector activity is considerably affected by the recession, sharply rising prices, inflation and falling real incomes. Therefore, the large number of unfinished dwellings is a major problem for private and public developers alike.

Reportedly, due to the lack of investment, public output continued to decline in 1995; most housing starts are privately financed, speculative housing schemes. Anecdotal evidence suggests that shifts from new construction to renewal and rehabilitation have begun to occur, which might be offsetting declines in new construction to a considerable degree.

**Table 5:
New Housing Construction by Type of Developer**

		1980	1990	1994
Number	State and local government	38,635	13,267	6,120
	Private persons	35,673	12,777	2,880
	Total	74,308	26,044	9,000
Sofia	State and local government	12,334	4,586	1,457
	Private persons	3,083	1,965	2
	Total	15,417	6,551	1,459

Source: MRI, 1996

Private housing development has a long tradition in Bulgaria, and has maintained a market share of 30-38 percent during the transition from planned to market economy. Since the early 1980s, the state has begun to shift housing responsibilities to individual households. The state and local government developed a large share of housing before and during the transition. Publicly promoted and built, this housing was financed and allocated in advance to future home-owners (Tsenkova, 1996). The outlook for growth is pessimistic. Markets for new housing are expected to have a small recovery, but output levels might reach a third of the construction level of the pre-transition period, by the year 2000.

Land costs vary widely according to the size of the city, and location. Land costs, defined as a percentage of the total house price in a typical new

housing development, are 17 percent in Bulgaria, but can be as high as 35 percent in Sofia. Serviced land is four times more expensive, compared to undeveloped land with planning permission, for residential construction. Difficulties in converting agricultural land into residential use limits the supply. In addition, jurisdictional and titling problems drive land prices upwards.

Construction costs are difficult to forecast in the Bulgarian currency (Lev) and estimates do not remain valid for long because of inflation. There is uncertainty about the availability and cost of building materials; costs in 1994 were \$176-184 per m² at the national level. Industry analysts indicated in 1996 that the costs of construction were increasing much faster when compared to the average consumer price index. Reportedly, materials account for 40 percent of the cost, labour 25 percent, capital equipment 10 percent, transportation 10 percent, and overhead costs 15 percent. High costs may be due to the use of outdated construction technology, and lack of economies of scale. Costs are illustrated in Table 6.

The shift in consumer preferences, and the major changes in the structure of the housing industry have led to changes in the type of newly-built urban housing. The physical and design characteristics of apartment buildings have broadened in the last five years. The average size of newly-built units has increased to 84 m², and traditional methods have replaced industrial and large panel technologies.

**Table 6:
Costs and Size of Newly-Built Housing, 1994**

	Land cost	Construction cost (m ²)	Number of rooms	Average size of newly-built unit (m ²)
National	17.0	176/184	N/A	84.0
Sofia	35-42	186/200	N/A	92.5/105.0

Source: MRI, 1996

MATERIALS, LABOUR AND FINANCING

Overview

The privatization of the building industry has been very slow. By the end of 1993, 15 privatization procedures were initiated, and 7 transactions closed, with the Ministry of Regional Development and Construction Planning, to sell 20 enterprises in 1994. With the decline of state-funded housing, state enterprises are in the process of restructuring. Half will be retained with modified production, some closed down, and the remainder sold for conversion to other lines of business. Cement mills, in particular, are among the privatization priorities.

Available data indicates that the construction industry is still dominated by large-scale enterprises with more than 200 employees. However, a number of new private firms have emerged, with the potential to operate more efficiently in the market environment.

Feedback from the industry suggests that more than 1,000 private construction firms are involved in the renovation of commercial buildings and new housing development in Sofia. State-owned firms control key building supplies and heavy equipment. About 20 percent of their production capacity is currently utilized. Table 7 shows the structure of the building industry in 1991.

Materials

The building materials industry in Bulgaria was developed to accommodate the needs of a growing construction industry. In early 1980s, with state construction enterprises reporting the completion of 3,000 units per month, there were chronic shortages of basic building materials. At present, the production capacity of key products such as cement, ceramic tiles and window glass exceeds the requirements in the domestic market. The output in the building materials sector has dropped in the last four years, due to the lack of sufficient domestic demand. Local production of building materials in 1993 is illustrated in Table 8.

Table 7:
Structure of the Building Industry, 1991

Indicator	Number
Public firms	923
Public employees	201,000
Companies with:	
0-49 employees	167
50-99 employees	198
100-199 employees	219
200-499 employees	243
500+	96

Source: United Nations, 1993

Table 8:
Local Production of Building Materials, 1993

Production of Building Materials	Quantity
Clay bricks (million)	585
Lime (1,000 t)	478
Roofing tiles (million)	22
Sheet glass	7,874
Ready-mixed concrete (1,000 t)	151
Sawn-wood (1,000 m ²)	250

Source: United Nations, 1995

Labour

Bulgaria has a highly skilled and well-educated labour force. A January 1993 Labour Code included procedures for collective bargainings and contracts are negotiated at the national level between unions and employee representatives. There are two large trade union confederations; the Confederation of Independent Trade Unions of Bulgaria (CITUB) and PODKREPA.

Workers are entitled to paid annual leave of 14-18 working days, and up to 150 hours per year of paid overtime. Foreign business employers need to take currency devaluation into consideration when fixing salaries. A standard practice is to fix salaries in dollars, but then pay in Lev according to the exchange rate at the time of payment.

Financing

A market-based housing finance system does not exist. Though “Price Level Adjusted Mortgages” were developed in 1992, they were not actually introduced. Therefore, the impact of housing finance reforms has been insignificant. The major banks are still owned by the Bulgarian government, with the state-owned Savings Bank accounting for over 90 percent of total housing credits. High interest rates, low incomes, high construction costs, and a preponderance of short-term liabilities make lending for housing unattractive. In addition, interest rates of 38-50 percent certainly discourage borrowing. The number of mortgages has declined from 40,180 in 1991, to 5,557 in 1994, while the amount of

overdue loans has increased to 69 percent.

In the absence of a market-based housing finance system, households have been self-financing new construction on an instalment basis (50, 30, and 20 percent). Existing homes are typically purchased using a single cash payment, while with new housing construction, prospective homeowners pay 50 percent of the final price one year in advance.

Without access to formal housing financing through financial intermediaries, the number of housing investors is reduced considerably. This acts as a significant barrier for the efficient performance of housing markets. Consequently, the lack of adequate housing financing is a major constraint for both new housing construction and renewal.

HOUSING MARKET ACTIVITY, NEED AND DEMAND

Housing Need

The huge transfer of wealth which accompanied housing privatization has sparked the development of a private housing market. In 1994, the number of transactions reached 11,970 in Sofia. Though it is difficult to gauge its magnitude, partly because tax evasion has turned it into a grey market activity, a rental market has also developed. Brokers serving the owner-occupied and the rental markets have appeared, and newspapers regularly carry real estate advertisements.

A new diverse system of house prices has emerged reflecting location, quality, accessibility, and level of services, resulting in the formation of distinct housing sub-markets in the urban structure. The general trend is towards the fragmentation and differentiation of the housing market, reflected in house price maps of urban areas. Average house prices in December 1994, were up 30 percent from price levels a year ago. House prices in selected cities are illustrated in Table 9.

Factors Affecting the Demand for Housing

The overall population has declined in recent years, due to a net natural population decrease and emigration. However, additional housing demand may occur in some urban areas now that residency restrictions have been relaxed. In addition, economic restructuring is likely to fuel the internal

migration by people who have lost their jobs, although it is unclear whether this will push people towards or away from cities. In 1994, there were 2.9 million households in Bulgaria (461,751 in Sofia), with an average household size of 2.8 persons.

Income differentiation in post-communist societies has crucial implications for the housing market. Average gross nominal wage in December 1995, was US\$123.3 up from US\$96.1 in 1994. However, real wages fell through 1996, due to higher inflation. According to analysts, wages are much higher in banking, property, and business services, though Bulgaria's statistics fail to include managers and employees for Western companies, who might earn US\$500-1,000 per month. Employees in the private sector might receive two or three times their official salaries in cash payments financed by unreported enterprise revenues.

House prices are increasing, particularly in Sofia, where a two-room apartment in the inner city may sell for about US\$40,000. New housing is more expensive, and is in the range of US\$50,000-65,000. In 1995, real estate agents report sales in the upscale market in the range of US\$250,000 for villas built on estate-size lots. Rent for a four-room apartment in the real estate market for foreigners and wealthy Bulgarians may be as high as US\$1,000, and are usually paid in hard currency.

Table 9:
House Price Dynamics in Selected Cities*

City	1993		1994		Increase in %	
	downtown	house estates	downtown	house estates		
Sofia	21.0	12.0	27.0	17.0	28.6	41.7
Plovdiv	12.0	8.0	16.0	10.0	33.3	25.0
Varna	15.0	8.5	19.0	13.0	26.7	52.9
Burgas	15.0	8.5	18.0	10.0	20.0	17.6
Ruse	9.0	6.0	11.0	6.5	22.2	8.3

* Prices are given in thousands Lev and are not adjusted for inflation.

Source: Tsenkova, 1997

Home-ownership is perceived as a desirable and a good investment in an inflationary context. Investment in housing is economically attractive for individual households, who channel a large fraction of their savings to improve their housing situation. Notwithstanding these preferences, it is expected that less than 5 percent of the households will be able to enter the housing market in the foreseeable future. However, due to the high level of home-ownership in Bulgaria, movement in the market will have a substantial impact on the supply of new housing.

The result of the changing income distribution and social attitude is a demand for high quality flats and single-family homes from the new middle and upper classes. Various income groups are both willing and able to invest in the upgrading of their existing housing, thus spurring an increase in renovation activity.

Low wages and employment uncertainty, coupled with high housing costs and mortgage rates, have

reduced demand for owner-occupied housing. In 1994, the ratio of income-to-house-price in Bulgaria was 1:5.8 (1:13 in Sofia), with utilities consuming close to 7 percent of the household budget. By far, the biggest housing problem facing households is the operation and maintenance of the former public housing stock. Home-owners are struggling to raise money to pay for services in an environment in which people are not accustomed to paying.

Despite the 800-percent rent increase in the public sector, the overall rent-to-income ratio is extremely low (about 1.3 percent of the average household income in 1994) and covers a fraction of the operating costs. As a result, maintenance and repair works are delayed, which leads to the further deterioration of the stock. Meanwhile private sector tenants spend over 50 percent of the household income on rent. The following table demonstrates housing costs in the owner-occupied rental sectors in 1994.

Table 10:
Housing Costs in the Owner-Occupied and Rental Sectors, 1994

	Public Sector Rental			Owner-Occupied
	(% of average income)			Ratio/house prices to income
	Rent	Utilities	Rent & Utilities	
Bulgaria	1.3	6.8	8.1	5.8

Source: MRI, 1996

EXPORT OPPORTUNITIES AND STRATEGIES

Though progress in economic and political reform has been slow, with liberal trade policies and a regime for foreign investment in place, Bulgaria offers a number of opportunities for Canadian housing exporters.

Canadian Housing Exports

Bulgaria is a small but growing market for Canadian housing products, which totalled about \$960 million between 1994-95. The most dynamic growth has been in the export of wood products (1,200 percent) and doors and windows (2,000 percent). Heating, ventilation, air conditioning systems, electrical-mechanical components, and wood products constitute approximately two thirds of the Canadian housing exports. In general, the market for construction products is volatile and it experiences substantial gains and losses from year to year for particular product categories.

Exports to Bulgaria have increased by 139 percent. The overall increase in most product categories was in the range of 150-200 percent in the first months of 1996, compared to the same period in 1995. Canadian involvement in the Bulgarian market is diverse, and includes mainly product exporters, according to a survey conducted by the Canadian Urban Institute in 1996. The value of Canadian building materials exports to Bulgaria for the period 1993-95 is shown in Table 11.

Overview of Selected Opportunities

Exports in the residential sector of the Bulgarian market are quite diverse, with no country achieving a dominant position. Foreign competition comes from Germany, Italy, Greece and the United States. Canada's export ranking for building products in the market is low and sales volumes are generally small.

Table 11:
Value of Canadian Building Materials Exports, 1993-95 (\$000)

	1993	1994	1995
Prefab. Buildings		43,400	
Wood Products	29,759	28,242	364,690
Doors & Windows		1,500	30,000
HVAC	86,179	130,306	117,659
Roof, Floor, Wall Products		3,000	67,577
Finishes		12,132	966
Tools & Equipment	101,673		
Total per Year	217,611	218,580	580,892

Source: Industry Canada, 1996

New House Building

There is some pent-up demand for housing in Bulgaria, estimated at approximately 4,000 units per year, with house building in Sofia and the larger cities focussed on luxury apartment buildings. The provision of luxury single-family housing is one of the most promising sub-sectors, estimated at US\$20 million. In addition, the construction of condominiums and townhouses, is another key opportunity with considerable risk.

- **Provision of Luxury Housing:** A promising niche market for the provision of luxury and custom homes on the outskirts of Sofia, Varna and Plovdiv, exists for Canadian house builders. The type of house most likely to succeed would be a traditional masonry home with a few upgrades such as HVAC, a custom kitchen, and a security system. Although volumes might range between 20-50 units per year, profit margins might be higher than in Canada. Risks will be involved, but these can be reduced by careful research into the local land and housing markets.

Construction Technologies and Building Materials

- **Technologies:** The renovation industry urgently needs efficient, modern production

technologies to assist in the upgrading of residential and commercial properties. Equipment is also needed for the production of lower density housing forms.

- **Building materials:** This market offers steady and growing opportunities, though volumes might be small. The most promising sub-sectors are materials for light construction, and fine-quality finishes, such as: plasterboard, wooden and laminated flooring, wooden baseboards, pre-finished, low-maintenance wall cladding materials, and vinyl sidings.

The renovation of commercial and mixed use building creates excellent opportunities for Canadian building material exporters, especially those engaged in the production of thermo-insulation and hermetic sealing materials, glass packets, light roofing materials, sanitary products, and plumbing components.

- **Housing Components and Value-Added Products:** Gradual changes are apparent in the types of components used in new housing construction, particularly plastic and aluminum windows, and pre-hung doors. Value-added products, air-conditioning, heating equipment, and alarm systems are competitive in the Bulgarian market.
- **Do-It-Yourself Market:** This market's estimated size is US\$5 million. However, while it is very promising, it is also extremely price sensitive. The best sales prospects for this market segment are: carpeting, vinyl wall coverings, vinyl floor coverings, baseboards and trims, kitchen cabinets, standardized doors and frames, hollow metal door frames, doorstops, standardized windows in frames, builders' hardware, acoustic and suspended ceilings, lighting fixtures, paints and coatings, and tools.

Foreign competition in the market for building materials is mostly from German, Austrian, French, and Italian firms. Prices are comparable to Western European levels, although quantities might be small. High quality products, especially brand names, are comparatively expensive for the average consumer. Despite low-income levels, firms report a high level of awareness of Western

goods, particularly for consumer-durable and fast-moving consumer goods.

Investment in the Privatization of State-owned Building Material Production

The privatization program launched in Bulgaria in 1996 aims to increase the share of private sector involvement and to encourage foreign investment in the construction industry. Companies will be sold through vouchers and competitive bidding to local and foreign investors by the end of 1997.

However, investment in privatized enterprises involves the potential risks of taking over companies with huge technical infrastructure, human resources and obsolete corporate structures. Despite those risks, considerable opportunities for joint ventures exist with the local building materials industry especially with respect to good quality, low-cost raw materials, and qualified labour.

Best Prospects

Market prospects are good for the following products:

- thermo-insulation and hermetic sealing materials;
- light roofing materials;
- plastic windows;
- builders' hardware;
- acoustic ceilings;
- heating and ventilation equipment; and
- alarm systems.

Market Strategies

The Bulgarian export market is promising, offering different opportunities and potential to Canadian housing exporters. Strategically, the country is also attractive as a gateway to larger regional markets. To succeed in the region's housing sector markets, it is not enough to provide the best possible service/product at the best possible price. Several key issues need to be considered:

- The business environment is changing rapidly for the better. It offers great business opportunities, with commensurate risks.
- Opportunities for Canadian housing exporters are mostly in selected niche markets.

- The attitude towards Canadian imports is positive, however, the market is price sensitive.
- There is less transparency in the business, legal and regulatory environments than in Canada and the best way to evaluate risk is to work closely with business experts operating in Bulgaria.
- A detailed strengths, weaknesses, opportunities and threats analysis is recommended as part of the strategic planning process.
- Individual businesses are well advised to choose a low-risk-return strategy.
- Working with a local partner and establishing a joint venture is highly recommended in order to maximize the position of the business in the marketplace.
- Business related risks for exporters are largely associated with potential credit risks due to the lack of Western accounting and banking systems. Specific risks such as insolvency or bankruptcy carry particular dangers. There is also a deficiency of legislation providing protection against them.

BUSINESS ENVIRONMENT

Overview

Anyone can enter the Republic of Bulgaria with the possession of a valid passport, and a Bulgarian Entry or Transit Visa. Visas can be obtained from a Bulgarian Embassy or Consulate, or they can be obtained at the border upon arrival. The Bulgarian business day is 8 hours while the business week is Monday to Friday.

Most North American firms are favourably impressed in their contacts with Bulgarian business representatives and Bulgarians in general. They find an openness and willingness to learn about Western marketing methods and an interest in becoming involved in new commercial ventures. In dealing with the emerging private sector, foreign firms will find the private entrepreneur receptive, highly educated, and eager to participate with a Canadian firm.

In general, despite the ineffectualness of the bureaucracy, government officials are accessible and open to discussions with foreign companies' representatives, frequently willing to make appointments on the spur of the moment. Such meetings often result in additional contacts and may gain some senior level attention, as well as general statements of support for projects. However, the Bulgarian government is not providing any official or state guarantees for project financing, and there is no suggestion that this policy will change in the near future.

After 45 years of mediocre and shoddy products, Bulgaria is not surprisingly a market of open demand for selection, quality, and service. Long-term stable market opportunities, ones that most foreign firms follow in Bulgaria, are based on strategic market planning that takes into account Bulgaria's governmental priorities and policies, availability of international funding, long-term trends in industrial, professional, and consumer sectors as well as regional marketing plans.

Private sector opportunities are especially promising given their rapid growth over the last few years. Private entrepreneurs operate over the full range of industrial, professional, and

consumer sectors of the economy. For industry, the weakest of the three areas, major capital equipment demand may be low but efficiency-oriented; environmental control, and computer-aided products are in demand.

Doing business in Bulgaria can be frustrating, such as trying to fax or phone a trading partner. The Bulgarian banking system still leaves much to be desired in comparison to Western banking practices and service. The bureaucracy poses another set of frustrations: the annoyance of not receiving a prompt response; passing responsibility for a decision to other offices; and the inability to obtain a clear answer on steps to take in order to comply with regulations.

Firms willing to conduct business in Bulgaria have an advantage, at least for the next few years, in that competition is comparatively weak in many sectors. Firms should be aware, however, that while the field may be relatively open, the market can be complex and difficult to gauge given the past market distortions. For example, despite a public that is well educated and skilled, the population has had to endure 45 years of bland products, poor choice, and pricing unrelated to supply and demand.

In the major turnaround to a market economy, both domestic and foreign firms have launched Western-style marketing programs, sales techniques, promotional campaigns, and various pricing strategies. Such market strategies may require some flexibility or a period of market adjustment for programs to be fully realized. The need for consumer or target audience re-education may be as much of a factor in Bulgaria as the degree of competition. As a result, the full market potential of Bulgaria is difficult to quickly gauge and should be viewed on a longer-term developmental basis.

From the legal perspective, laws regarding foreign investment in Bulgaria are some of the most liberal in Eastern Europe. Establishing a firm is not onerous but it is advisable to retain a lawyer.

The use of legal counsel or recognized accounting, consulting firms is essential in instances of intricate business arrangements such as joint

ventures or manufacturing. Such activity frequently encounters a thicket of national and local bureaucracy.

Credit reports, due diligence, and other background analyses are difficult if not impossible to obtain as such practices are new in Bulgaria. Moreover, the object business partners normally have only a limited business record for review. As a consequence, Canadian firms should utilize as many resources as possible, including banking and personal references, Western business contact recommendations and, if possible a site visit to assess the situation first-hand.

Establishing an office can also be an ordeal in that demand for Western-class office space is high and the supply is quite limited. Many firms are in renovated but aging downtown properties with poor entrances and few lift capabilities. No new office construction sites were planned to open in 1994.

Business Customs

Bulgarian is a Slavic-based language, with similarities to Serb-Croatian and Russian. A few courtesy words or phrases will carry the business visitor a long way in establishing rapport or acceptance. On the professional level, English is increasingly spoken with German, French, and Russian as the next in order of usage. Major hotels and some restaurants will have some knowledge of English. But the business visitor should be aware that a nod of alleged comprehension of what was said does not necessarily mean that the English was in fact understood.

The traditional Western gesture of nodding meaning yes, and shaking the head for no, is reversed for Bulgarians. Bulgarians are more informal in their business habits, from dress to manners, than many West Europeans. Moreover, Bulgarians prefer to become familiar with their business partner over coffee or soft drinks especially during initial meetings before launching into detailed discussions. When discussions progress onto business topics, very often general agreement is reached with details to be left for another meeting or to be mailed or faxed at a later date.

While Bulgarians are shrewd at business they may not take an aggressive stance, and as such will wait for the foreign partner to initiate or advance the relationship. This trait combined with the poor communications in Bulgaria results in many missed opportunities, as the foreign partner considers Bulgarian non-responsiveness as a signal of lack of interest. This is in most instances not the case, though many less experienced Bulgarians will need to be prodded into prompt exchanges of correspondence.

Bulgaria celebrates the following holidays:

**Table 12:
Holidays**

January 1	New Year's Day
March 3	Liberation from the Ottoman Yoke Day
May 1	Labour Day
March/April (varies)	Easter Sunday
March/April (varies)	First Monday after the Orthodox Easter
May 24	Cyril and Methodius Day
December 25	Christmas Day
December 26	Christmas Holiday

Business Infrastructure

Bulgaria has only a limited number of land border crossings. This problem is severely aggravated by the UN sanctions imposed on Serbia, which block the most direct and heavily used land route between Bulgaria and Western Europe and increase the strain on the few crossing points along Bulgaria's other borders. There currently is only one bridge across the Danube which serves as Bulgaria's border with Romania to the North, at Russe. A ferry has been established at Vidin. The wait at both these crossing points can last up to several days. There are only two crossing points along the Southern border with Greece, and one of these is open only in the summer. Bulgaria has two crossing points into Turkey and three into the former Yugoslav republic of Macedonia.

Bulgaria has two significant ocean ports, Varna and Burgas. Port facilities are generally adequate

for bulk commodities, but lack facilities for special handling. Railroads are also poorly maintained. Most cargo hauling remains in the hands of the state-owned Bulgarian State Railroad and Somat Trucking Company.

Both enterprises lack specialized equipment, such as reefers. Bulgaria has more telephones per capita than any other central or East European country, but it also has the lowest call completion rate. Circuit quality is poor with an aging infrastructure and equipment which suffers frequent breakdowns. The limited number of international circuits result in long delays for overseas calls. Canada-bound calls must be placed through an operator.

The currency used in Bulgaria is the Lev, the only payment medium that is allowed, and non-residents may open both foreign currency and Lev accounts in Bulgarian banks. An inter-bank foreign exchange market began functioning in October 1991. Consequently, commercial banks and private persons are licensed to carry out foreign exchange transactions. The foreign exchange market is based on a free floating quotation of the major currencies, and a daily reference rate by the Bulgarian National Bank. The exchange rate as of February 1, 1997 is US\$1: Lev 2,000.

Financial services are rudimentary. Bulgaria has only begun to develop the capital markets that are commonplace in the West. Business is regularly conducted on a cash only basis due to the inflexibility of the banking system. There are no personal or corporate chequing accounts. Fund transfers, even within Bulgaria, take an inordinate amount of time and are not always successful on the first try.

The Bulgarian banking system has been in a state of flux due to the proliferation of banks following the changeover to a market system. Many of these banks were undercapitalized and poorly organized. A consolidation of Bulgaria's state commercial banks has been underway in recent years but despite such efforts, most of these banks have significant financial problems with non-performing loans made to state enterprises.

Banking will remain a source of frustration for Western companies who expect a higher level of

service and responsiveness in financial transactions. Some banks require up to 20 days for international transfers to clear; tellers sometimes even enquire as to the purpose of a bank withdrawal. The banking situation will improve when Western banks begin to establish themselves in Bulgaria now that a resolution to debt negotiations – "London Club", has been reached. The second stimulus will result from a successful implementation of privatization of state banks.

Sofia is well served by European Airlines with convenient direct flights to most major cities in Europe. Balkan Airlines, the national carrier, has an extensive network of routes including direct flights to Toronto and New York, as well as routes to major cities in Central and Eastern Europe, the former Soviet Union, Africa, the Middle East, Asia, and Australia.

Train and bus travel from neighbouring countries is much more cumbersome, with many hours taken up in delays and border crossings. Car travel to Sofia from Greece, e.g., Thessaloniki (4 1/2 hours), or from Istanbul (7 hours), is manageable and can be quite pleasant. Northern crossings through Romania can be difficult due to the bottlenecks created by truck traffic crossing the Danube. Travel within Sofia is not difficult given the concentration of business activity within its centre. Taxis and rentals are readily available, and the more adventurous can hop on the tram or bus.

Infrastructure is one of the weak points of Bulgaria. Communications within and to Bulgaria are difficult, though major programs are underway to modernize the system and provide options such as cellular phones, microwave systems, v-sat systems, private line/satellite linkages, and fibre-optic based connections. Such technology, however, is only as good as the weakest link in the network, meaning that the local cabling is subject to climatic conditions, construction, as well as vandalism and pirating of lines. Business representatives will have to endure such a predicament until the upgrades come on line.

Finding the right accommodations can be a problem in Bulgaria given the many years of apartment block construction at the expense of single-dwelling homes. Increasingly, the outskirts of the city are populated with renovated and

expanded homes that are occupied by the incoming foreign community.

There are no overriding health considerations other than infrequent city and industrial pollution, neither of which reach any critical proportions except during a few temperature inversion days of the winter. Bulgaria has in fact a sunny, dry, and pleasant climate with four seasons. For medical care, a handful of doctors and dentists have Western training and cater to the foreign community; hospital care still leaves much to be desired. Should hospitalization be required, patients should opt to travel to West European hospitals, if possible. Most basic medications are available, but specialized prescription drugs should be brought or mailed.

All basic food items can be obtained in Bulgaria. Some North American products such as cereals, condiments and canned goods are available at specialty stores in Sofia. Meats and dairy products are also available but not necessarily in recognizable cuts or with convenience packaging.

Distribution and Sales Channels

Distribution and sales channels are taking on Western appearances though Bulgaria has little depth in the full utilization of these methods. Distribution of professional and consumer products is shifting increasingly to private firms; however several major state firms are still in state hands.

Sales to major enterprises is also conducted through private channels using private agents or representatives. Regional coverage is most likely from central offices in Sofia, being the hub of commercial and economic activity. Secondary hub sites might be Plovdiv in central Bulgaria, or Varna, the major port on the East Coast of Bulgaria. Most areas within Bulgaria can be reached by car or truck within a 6-7 hour drive from any of the major hubs. Standard distribution techniques are employed with warehouses, showrooms, and representative offices all being part of the distribution landscape of Bulgaria.

Direct marketing is still new to Bulgaria. Some limitations to its broader application are poor telephone service and unreliable mail deliveries. Direct outlet type stores could be developed.

Another possibility exists with the new private television stations which can be used for home shopping type programming. Direct sales on a personal referral basis may also have good possibilities when based on efficient distribution and quality products.

The marketing of building products and services in Bulgaria is inhibited by the lack of a developed network of large distributors and wholesalers. Import and retail operations are handled mainly by small private companies. Distribution channels are being established, and the most common means of accessing them is through a local partner, or by exporting through a consolidator.

The Bulgarian Chamber of Commerce and Industry maintains an extensive database INFOBUSINESS, which documents all business organizations and their activities. It offers information to companies, and can help with identifying interested agents, partners and distributors.

Trade fairs and exhibitions have been recognized as an important form of marketing. There are two major trade fairs that attract international exhibitors to Bulgaria:

- The International Plovdiv Fair held annually in May and in September, is a major event in South-East Europe, with an average of 35-45 participating countries, and 1600-2500 exhibitor firms.
- The Sofia Fair held annually in May features about 500 foreign exhibitors.

Finding a Partner

Foreign firms generally find high interest among the well-educated applicants for representative positions. However, depending on the degree of managerial skills required, the greater the executive responsibilities, the more the need for training and contact with foreign company officials. Among some of the reasons for direct training is the need to overcome a trait among many well-educated Bulgarians: great on theory and research; weak on practice and action. Many foreign firms have been successful at developing the proper skills especially within the younger category of managers.

Finding an interested partner is generally not difficult; more at issue will be terms and

conditions such as minimum purchases and promotional support. Generally speaking, the smaller the operation and less experienced the Bulgarian entrepreneur, the less resources the candidate will have to commit to the relationship and the greater the assistance will be sought from the foreign partner.

As another option, companies can establish ties with marketing institutes which are frequently spin-offs from major state enterprises. This is a hit-or-miss proposition in that one gains a team of specialists, but commitment and initiative may be lacking given the bureaucratic nature of those marketing organizations.

Joint Ventures and Licensing

Joint ventures (employing the definition whereby two parties both contribute to create a third entity) have largely been unsuccessful for a number of reasons. First, normally the joint venture potential partner has been a state entity. State entities involve several layers of authority: the Ministries; the partner's Board of Directors, and the management (may also involve trade union officials and municipal authorities).

Decision-making becomes particularly difficult under these circumstances especially with a bureaucracy more interested in establishing its influence than in promoting the success of the joint venture. Moreover, at all levels, the players frequently change, making any relationship with the foreign partner tenuous.

Added to this is the uncertainty of what will happen should the state enterprise be privatized. With such fundamental issues as the determination of assets, establishing an efficient work-force, and maintaining quality control, joint ventures need solid agreement, a consensus which is particularly hard to achieve in the above-described circumstances. With exceptions of course, firms should consider Greenfield operations or perhaps a privatization of a target partner before becoming involved in a joint venture.

Licensing is an accepted method of business in Bulgaria but not widely known. The economies of the transitional countries are just now becoming more familiar with the variations of Western business and as a result, partners, banks, and legal

authorities will need to be educated on the methods and facets of licensing. Perhaps the most prominent example of licensing in Bulgaria is in the area of hotels and tourism, where Western licences have been providing trade names and management packages.

Establishing an Office

Steps to setting up an office in Bulgaria are fundamentally no different than in other parts of the world, the distinction being in the availability of North American-class office space and the time and energy needed to set-up.

First from the legal perspective, Bulgaria requires no special permission to establish a business, except in certain sectors such as defence, banking, and insurance. Investors are required to register their investment with the Ministry of Finance within 30 days of its establishment. To establish a Bulgarian entity of a Canadian firm, application must be made to the court that has jurisdiction over the area.

A second option is to establish a promotional office, but such an office can have no contractual powers. In this instance, registration with the Bulgarian Chamber of Commerce is sufficient.

Turning to the practicality of opening an office, the capital and commercial centre of Bulgaria, Sofia, has at most only a handful of Western-style office centres. As a result, many firms have resorted to settling in buildings which are combined residential and commercial. While central to the city, such locations still lack many basic office amenities and ease of internal access, not to mention their scruffy outward appearance.

Rates unfortunately have commensurately risen with increasing demand; some rates for prime downtown frontage equal prices in major European capitals. Several real estate consultants have opened for business and are available to provide office-hunting services, but for the foreseeable future, good office space will continue to be a problem.

Selling Factors and Techniques

The Bulgarian market can be complex and difficult to gauge given the past market distortions. Fluctuating market demand, poor statistics on disposable income, limited government spending,

and poor consumer education are all factors that challenge the foreign exporter.

The multiplicity of target audiences adds further complexity in that purchasing for industry sectors or major portions of the economy was centralized with foreign trading organizations. Now each individual firm or entity has the right to conduct such activity.

Most organizations are however not trained in purchasing and as such will require some time to cultivate and educate. On the consumer level, mass media is becoming a stronger influence along with the advent of Western-style advertising. The bottom line for sales techniques is that marketing in Bulgaria will be fundamentally the same as in the home territory or neighbouring markets, with the successful formula based on quality, price, and service.

Advertising and Trade Promotion

Canadian firms can benefit from a growing number of internationally recognized advertising and public relations firms in Sofia. The spectrum of mass media promotion, from print to broadcast, is available. Specialized magazines and journals are increasingly on the market. Trade promotion, of course, varies with the nature of the commodity, but generally, foreign firms have had success with major trade shows, single theme shows, and single company presentations.

Technical sales seminars are usually an excellent vehicle to attract a wide audience of decision-makers. Most of the major hotels as well as the trade fairgrounds have full facilities to offer foreign firms.

Pricing Products

The degree of the competition, sophistication of the target client, and price sensitivity of the market are all key factors in Bulgaria. The market is both complex and in major transition. Sales policies therefore should be flexible and based on a long-term view; such a strategy is essential to riding out the inevitable swings in demand that are a consequence of an economy under transformation.

As a result of price liberalization in 1990, the prices of over 90 percent of production and

consumption goods are regulated by demand and supply. Therefore, the vast majority of prices are set and negotiated freely by companies. Products in Bulgarian markets need to be introduced on a small scale. As in other markets, sales are price sensitive, although the high quality and good reputation of Canadian building materials and products is an asset.

Sales Service and Customer Support

Service is recognized as an important factor in customer satisfaction, however in practice Bulgarian service still leaves much to be desired. After 45 years of complaining to no avail, customer expectations are very low. As a result, any level of service is considered a bonus. As a consequence, the Bulgarian customer is not nearly as demanding as its Western counterpart.

Without such consumer pressure, firms will not be forced to translate their well-meaning slogans into actions. Sales are still the top priority. Yet the new culture of foreign firms which do offer customer-focussed service is having an impact.

Another level of customer relationships exists with the purchasing agents of governmental authorities or major enterprises. Technical training, guarantees of parts and supply, and some orientation visits are aspects of good commercial programs.

Selling to the Government

Opportunities for direct sales to either the national or local governments are very limited. The current austerity budget policies have eliminated all but the most essential purchases.

Protecting Your Intellectual Property

In 1993, Bulgaria enacted a new Patent and Copyright Law which was modelled after Western legislation. Bulgaria's Trademark and Industrial Design Law is in need of updating, but is considered adequate.

Patents are protected for 20 years after filing and trademarks protected for 10 years. The major concern over intellectual property rights is enforcement. Lack of manpower, proper training and wrist-slapping penalties have handicapped the administration and maintenance of laws.

Need for Local Legal Assistance

Local legal assistance is strongly advised for the simple reason that Bulgaria will enforce the letter of the law. To be in compliance, it is advisable that either a lawyer or a major accounting firm (all major accounting firms are present in Bulgaria) be hired. Good lawyers are usually politically and bureaucratically well-connected, and in a city such as Sofia with close-knit ties, such connections can be invaluable.

Regulatory Issues

Bulgaria's import regime was liberalized in 1991, when import restrictions were eliminated and the number of items requiring import licences was greatly reduced. That same year, Bulgaria introduced a new tariff schedule which lowered duties to within the norms of the GATT. Only a limited number of products require import licences. Some agricultural products are subject to this requirement but licences are usually readily obtained. There are no quotas on housing-related imports.

The current customs tariff has been in force since July 1992. Bulgaria has adopted a customs system that is favourable to some developed countries; imports from some 42 countries are entirely duty-free. In addition, imports from some 118 countries receive preferential treatment. Duty is to be paid by all importers within 30 days, and is to be included in the prices of imported goods.

Customs declaration is equivalent to the European Union Single Administrative Document. The average rate of duty is about 18 percent, while minimum rates (3-5 percent) apply for the import of raw and prime materials, and the rates for finished products are in the range of 15-20 percent. In addition, customs authorities collect 0.5 percent for customs processing, and impose a temporary import charge of 2 percent. Imports of goods require the usual types of documentation normally required in international trade. Bulgaria applies the single administrative document used by the European Community.

Temporary entry of goods may be obtained in a number of ways:

- either through an ATA Carnet for Temporary Import of Goods, obtained from the local Chamber of Commerce;

- through other carnets, such as Carnet "TIR" or special Carnets for "Tobacco and Alcohol;"
- authorized shippers and forwarders for major promotional events and trade fairs who will normally handle the temporary entry of goods as long as proper documentation is received from the Canadian party, i.e., that invoices and shipping documents clearly state that goods are to be used only for demonstration or display purposes.

Bulgaria has adopted many European Union (EU) trade regulations and while not explicitly prescribed by Bulgarian statutes, adherence to such practices would be advisable and a positive competitive element. Warnings should be clearly visible.

The Bulgarian government aspires to a system of standardization in line with internationally accepted principles and practices. In this regard, some experts are familiar with ISO 9000 standards but Bulgaria is a long way away from its implementation. In general, imported goods must conform to minimal Bulgarian standards. The practice has been that imports have been accorded no less favourable treatment than for comparable domestic products. Bulgaria accepts test results, certificates or marks of conformity issued by recognized authorities of other countries.

The seven Free Economic Zones established in Bulgaria, provide a number of incentives for foreign investors. The terms and conditions of carrying out manufacturing, trade, and other business activities in these zones are regulated by Decree 2242 of 1987. Business activity in the zones is exempt from taxes and customs duties, and all payments are made in convertible currency. Free Economic zones are located in the vicinity of Vidin Ruse, Burgas, Dragoman, Plovdiv and Dobritza (BCCI, 1994).

The taxation of foreign investors in Bulgaria is, in principle, on an equal basis with local investors, and the following tax rates apply:

- Corporate profit tax rate of 40 percent.
- Trading companies with foreign participation exceeding 49 percent are assessed a 30-percent profit tax.
- Branches of foreign companies are assessed a 40-percent profit tax rate.

- Receivables by non-residents (dividends, equity, copyright and licence royalties, technical services and rental income) are assessed at a 15-percent tax rate.
- Social Security contributions by employers are assessed at a rate of 20 percent of monthly pay (BCCI, 1994).

There are no restrictions on profit repatriation. A company can convert its profits from Lev to other currency, provided that the conversion is completed through the official bank intermediaries. Foreign employees of a company with more than 50-percent foreign participation, may exchange up to 70 percent of their Lev pay for convertible currency. Foreigners are not allowed to export Bulgarian currency.

According to the 1990 Ownership Act, and the Law on Ownership and Use of Agricultural Land (1991), foreign legal persons with registered legal entities in Bulgaria are entitled to acquire ownership rights on buildings, and limited rights on real estate. The law does not allow the acquisition of land by foreigners. Trading companies with more than 50-percent foreign ownership, are restricted in their ability to acquire ownership of agricultural land.

The significant liberalization of the Bulgarian foreign trade regime since 1992, has been accompanied by the elimination of the government monopoly over foreign trade and foreign exchange regulations. Import licences are aligned with UN requirements for key trade documents, and the terms of delivery, payments, required documents, registration, and licensing correspond to UN standards.

EDC Financial Risk Assessment

The Export Development Corporation (EDC) helps Canadian companies compete in world markets through the provision of financial and risk management services. These include export credit insurance, financing to foreign buyers of Canadian goods and services, and guarantees.

The following information was obtained from the EDC Country Risks and Opportunities book (fall, 1996).

These issues should be taken into consideration when assessing financial risk in Bulgaria.

- The Bulgarian government remains caught between compromising its own popularity and doing enough to satisfy international institutions.
- Economic policy performance has substantially deteriorated, especially with respect to the banking sector which is in a major crisis.
- An International Monetary Fund (IMF) Stand-by Arrangement was implemented in July 1996, but appears to be already inoperative. Foreign reserves are less than one month's worth of imports.

The overall risk profile is poor and the creditor experience is generally poor. In the short-term, the EDC advises extreme caution, and assesses ILC business on a case-by-case basis. The medium and long-term credit is generally poor and is under review. Foreign investment insurance is evaluated case-by-case.

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(CCC)

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215 Water Street
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Confederation Court Mall
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Nova Scotia

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Tel.: (902) 426-7540
Fax: (902) 426-5218

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5 Place Ville-Marie
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Alberta <i>* Edmonton office is also responsible for Northwest Territories</i>	International Trade Centre Canada Place 9700 Jasper Avenue Room 540 Edmonton, AB T5J 4C3 510-5th Street S.W. Suite 1100 Calgary, AB T2P 3S2	Tel.: (403) 495-2944 Fax: (403) 495-4507 Tel.: (403) 292-4575 Fax: (403) 292-4578
British Columbia <i>* Vancouver office is also responsible for the Yukon</i>	International Trade Centre 300 West Georgia Street Suite 2000 Vancouver, BC V6B 6E1	Tel.: (604) 666-0434 Fax: (604) 666-0954

Export Development Corporation (EDC)

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London	Talbot Centre 148 Fullarton Street Suite 1512 London, ON N6A 5P3	Tel.: (519) 645-5828 Fax: (519) 645-5580
Montreal	Tour de la Bourse 800 Victoria Square Suite 4520 P.O. Box 124 Montreal, PQ H4Z 1C3	Tel.: (514) 283-3013 Fax: (514) 878-9891
Halifax	Purdy's Wharf, Tower 2 1969 Upper Water Street Suite 1410 Halifax, NS B3J 3R7	Tel.: (902) 429-0426 Fax: (902) 423-0881

Bulgarian Government Offices in Canada

Embassy of Bulgaria	325 Stewart Street Ottawa, ON K1N 6K5	Tel.: (613) 789-3215 Fax: (613) 789-3524
Consul General of Bulgaria	65 Overlea Blvd., Suite 406 Toronto, ON M4H 1P1	Tel.: (416) 696-2420 Fax: (416) 696-8019

Multilateral Organizations

World Bank	Washington, DC 20433 U.S.A.	Tel.: (202) 477-1234 Fax: (202) 477-6391
Office for Liaison with International Financial Institutions	Canadian Embassy 501 Pennsylvania Avenue N.W. Washington, DC 20001	Tel.: (202) 682-7719 Fax: (202) 682-7726

Business and Professional Organizations in Canada

Alliance of Manufacturers and Exporters Canada	99 Bank Street, Suite 250 Ottawa, Ontario K1P 6B9	Tel.: (613) 238-8888 Fax: (613) 563-9218
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Canadian Banks with International Offices

Bank of Montreal	11 Walbrook Street London, England EC4N 8ED	
Canadian Imperial Bank of Commerce European Operations Office	Cottons Centre Cottons Lane London, SE1 2QL, England	Tel.: (011-441-71) 234-6000
National Bank of Canada Europe Regional Office	Princes House 95 Gresham Street London, England EC2V 7LU	
Royal Bank of Canada AG	P.O. Box 71 07 14 Lyonner Strasse 15 60497 Frankfurt am Main, Germany	
The Toronto-Dominion Bank	Triton Court 14/18 Finsbury Square London, England EC2A 1DB	
Hongkong Bank of Canada	10 Lower Thames Street P.O. Box 506 London, England EC3R 6AE	

Bulgarian Government Departments and Other Organizations

Ministry of Foreign Affairs	2, Al. Zhendov Str. 1000 Sofia, Bulgaria	Tel.: (359 2) 7 14 31 / 7 14 41 Fax: (359 2) 885536
Ministry of Trade	12, Al. Batenberg Str. 1000 Sofia, Bulgaria	Tel.: (359 2) 88 20 11 / 87 20 41 Fax: (359 2) 803968
Ministry of Industry	8, Slavianka Str. 1000 Sofia, Bulgaria	Tel.: (359 2) 87 07 41 Fax: (359 2) 870206 / 546106
Ministry of Regional Development and Construction Housing Policy Division	International Relations Division 17-19 Kiril i Metodi Str. Sofia, Bulgaria	Tel.: (359 2) 83 841 Fax: (359 2) 87 25 17
National Centre for Regional Development and Housing Policy	Housing Policy Department 14-16 Alabin Str. Sofia, Bulgaria	Tel.: (359 2) 84 111 Fax: (359 2) 54 32 07

Business and Professional Organizations in Bulgaria

Bulgarian Chamber of Commerce and Industry	11a Suborna Str. 1000 Sofia, Bulgaria	Tel.: (359 2) 87 26 31 Fax: (359 2) 873209
Bulgarian Industrial Association	14, Albin Str. 1000 Sofia, Bulgaria	Tel.: (359 2) 87 96 11 / 88 27 25 / 87 29 60 Fax: (359 2) 872604
National Association of Real Estate Agencies	World Trade Center - Sofia 34 Denkoglu Str. Sofia, Bulgaria	Tel.: (359 2) 81 65 65 / 80 27 74
INTERPRED	Association of Offices for Representation of Foreign Companies 38, Dragan Tsankov Blvd. 1156 Sofia, Bulgaria	Tel.: (359 2) 71 46 46 Fax: (359 2) 70 00 06 / 70 85 87 / 70 90 96

Major Bulgarian Banks

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Bulgarian National Bank	1 Al Batenberg Sq. 1000 Sofia, Bulgaria	Tel.: (359 2) 88 54 34 / 88 65 75 Fax: (359 2) 88 05 58
Bulgarian Foreign Trade Bank	7 Sveta Nedelya Sq. 1000 Sofia, Bulgaria	Tel.: (359 2) 84 91 Fax: (359 2) 88 46 36 / 88 53 70

Free Trade Zones

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Bourgas Free Trade Zone	Bourgas Seaport 8000 Bourgas, Bulgaria POB 154	Tel.: (359 56) 4 77 64 / 4 28 58 Fax: (359 56) 4 20 47 / 4 55 21
Dragoman Free Trade Zone	Dragoman Municipal Council 2210 Dragoman, Bulgaria	Tel.: (359 997172) 20 14
	Vidin Free Trade Zone 3700 Vidin, Bulgaria	Tel.: (359 94) 2 28 37 / 2 33 60 Fax: (359 94) 3 09 47

Regional Chambers of Commerce

Bourgas Chamber of Commerce and Industry	1 Tsar Peter Str. 8000 Bourgas, Bulgaria POB 644	Tel.: (359 56) 4 22 07 / 3 91 08 / 2 61 29 Fax: (359 56) 4 26 12
Vidin Chamber of Commerce and Industry	Municipal Council 12th Floor 3700 Vidin, Bulgaria	Tel.: (359 94) 2 46 15 / 2 65 58 Fax: (359 94) 2 57 84
Varna Chamber of Commerce and Industry	135, Primorski Blvd. 9000 Varna, Bulgaria	Tel.: (359 52) 25 00 77 / 23 90 18 / 25 01 33 Fax: (359 52) 25 01 02

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6 to 10	6.18	11.07	12.46	34.75	20.61	88.75	55.75
11 to 20	6.43	12.35	18.08	42.75	38.77	118.75	71.75
21 to 40	6.94	14.90	23.81	58.75	64.65	193.75	103.75
41 to 60	7.44	17.62	29.48	74.75	68.12	253.75	129.75
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81 to 100	8.45	23.35	40.92	106.75	146.60	373.75	169.75
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